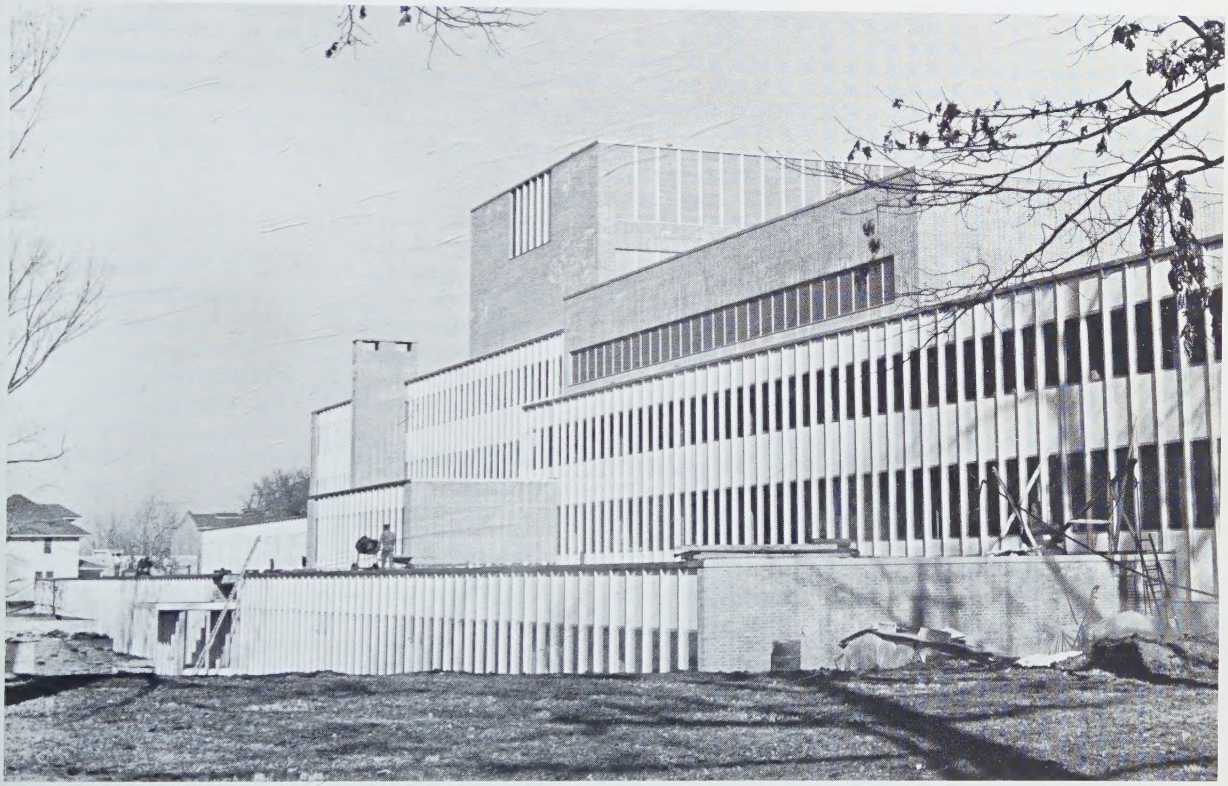
SOUTHERN ILLINOIS business bulletin

Vol. 11, No. 1 Winter, 1961 Carbondale, Illinois



$4.6 MILLION UNIVERSITY CENTER PROGRESSES TOWARD JUNE COMPLETION DATE

- **A DISCUSSION OF RIGHT-TO-WORK LAWS**
- **AN ECONOMIC FORECAST FOR THE YEAR 1961**

THE JAUNDICED DOG BITES AGAIN

by William Van Voris and Irving Kovarsky

In Illinois and other states efforts will be renewed to enact right-to-work legislation under the guise of protecting the laboring man from the whims of racketeering union leaders. In fact, the Labor-Management Reporting and Disclosure Act of 1959, a law designed to halt racketeering and other undesirable union practices, may stimulate a renewal of the attack to pass right-to-work laws. Because of Section 705, what is tantamount to closed shop working conditions is permitted in the construction industry *only*. Taking a democratic view, it is difficult to see the need to protect the already existing monopoly power of the unions representing construction workers. Thus, Section 705 provides additional ammunition for those advocating right-to-work legislation as a means of curbing union power.

Currently, Alabama, Arizona, Arkansas, Florida, Georgia, Iowa, Indiana, Kansas, Mississippi, Nebraska, Nevada, North Carolina, North Dakota, South Carolina, South Dakota, Tennessee, Texas, Utah, and Virginia prohibit all forms of union-security provisions.

If Illinois joins them we can expect the typical industrial unrest that comes when a right-to-work law is enacted. For example, when Indiana enacted its right-to-work law in 1957, 10,000 angry AFL workers trampled the Indiana statehouse lawn into mud; some of them pushed into the building and beat on the doors of Governor Handley's office, shouting and waving placards. They demanded that the Governor veto the bill because they believed it threatened their unions and the security of their jobs as much as the yellow-dog contracts in use prior to 1932[1] Indiana was the eighteenth state to pass right-to-work legislation, but the first heavily industrialized state to do so. Most of the states having these laws are in the South and Southwest or in the predominantly agricultural communities where unionism is still so suspect of "creeping socialism" that right-to-work laws are considered necessary. Proponents of right-to-work laws are continuously making pious attempts to enact them in more heavily industrialized centers.

The investigation conducted several years ago by the McClellan Committee has unquestionably uncovered cesspools of evidence establishing the mismanagement of union funds, looting, abuse of trust and racketeering. As a result, many individuals and organized pressure groups are advocating radical surgery through the passage of right-to-work legislation as a means of eliminating these cancerous conditions. They argue that if union power is removed by right-to-work legislation and open shops, racketeering in unions will end; to cure an infected finger they would amputate labor's right arm.

Such quackery is not prescribed when scandals appear in other institutions. While the McClellan Committee investigated union racketeering, other senators were finding evidence of fraud, negligence, and abuse of public trust in the communications industry, but so far no public spirited men have seriously considered abolishing TV and radio networks in order to reform them. From time to time scandals quite as outrageous as those discovered in a few unions have soiled the governments of most major cities in the United States. No one suggests abolishing city administration.

When elected officials are found to be dishonest the usual course is to remove them by legal means, enlighten the electorate and legislate procedures that will permit responsible officials to be elected and require them to keep the people they represent accurately informed on all major policies and expenditures. It is hard to see why unions should be treated differently from other democratic institutions.

Labor leaders believe that public indignation over union racketeering is being used merely as an excuse to break unions; as a result the leaders become more militant and we can expect to hear more of angry and frustrated workers, of strikers, mud-slinging, and exasperating jurisdictional disputes. Of course, merely because unions may become more militant is not reason enough to halt the passage of right-to-work legislation. However, the more progressive and understanding employer and employers' association must attempt to ascertain the true motives of right-to-work advocates and must determine whether the possibility of increased bickering and in-fighting is worth-while.

Curiously enough, these state laws are authorized and encouraged by the Taft-Hartley Act. During the last twenty-five years, Congress has attempted to maintain a balance of power between Labor and

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Southern Illinois Business Bulletin — **Winter, 1961 Vol. 11, No. 1**

The *Southern Illinois Business Bulletin* is published quarterly by the School of Business, Southern Illinois University, Carbondale. Second class mail privileges authorized at Carbondale, Illinois. Signed articles do not necessarily reflect the views of the *Business Bulletin*, the School of Business, or Southern Illinois University.

Subscription is free

Management by legislation. When Congress noted the ineffectiveness of unions during the Depression, it passed the Wagner Act in 1935. After World War II when some of the worst Labor-Management disputes in the nation's history arose out of the difficult adjustment from war and the ill-advised use of newly acquired union power, Congress passed the Taft-Hartley Act in 1947 to regulate labor relations in interstate commerce. Many persons and groups continued to argue that labor's "wings" had not been clipped by the Taft-Hartley Act. As a result, the Labor-Management Reporting and Disclosure Act of 1959 was passed to prevent some of the more flagrant abuses.

The Taft-Hartley Act eliminated the closed shop and preferential union shop but permitted a union shop to be negotiated by collective bargaining. Unlike a closed shop which requires that a worker belong to a union *before* he can hold a job and a preferential union shop which requires the hiring of unemployed union members *before* nonunion people can be hired, the union shop requires that a worker join a union *after* at least thirty days on the job. Thus, under the union shop, people not members of a union can be employed. However, after the passage of thirty days or more, where a union shop contract has been negotiated between the representing union and the employer, the person hired must join the union.[2] An unusual addition was Section 14(b) of the Act which, contrary to most Federal legislation, permits the state law to prevail if it is more restrictive than the Federal law.[3] Open sesame! Right-to-work laws were rushed to the state legislatures. No worker, where state right-to-work laws are in effect, must join a union as a condition of employment. Such legislation was deemed to be desirable as a means of insuring employment opportunity for the nonunion person and to provide democratic safeguards.

The incentive to pass state right-to-work laws could be ended in one stroke by slicing out Section 14(b). In fact, organized labor continues to push for the passage of legislation repealing Section 14(b). Since most firms of any economic size are engaged in interstate commerce, by repealing Section 14(b) and continuing the use of the union shop as provided for in the Taft-Hartley Act, pressure at the state level by the more militant groups to enact right-to-work laws would come to an end. So far the many attempts to do so have failed, and ex-President Eisenhower—in opposition to his own ex-Secretary of Labor, James P. Mitchell—has said that he sees no reason to keep states from framing their own policies of union security. Of the presidential candidates, President Kennedy, during the past campaign favored the repeal of Section 14(b) while Nixon took the view that the entire issue is primarily one of state concern.

The decision of Eisenhower and Nixon delights the most actively vociferous pressure groups for right-to-work laws; the U.S. Chamber of Commerce, the National Right to Work Committee, and the National Association of Manufacturers to name a few of the better-known organizations representing employers. Ignoring the false assumptions that some irresponsible organizations are representative of all organized labor in America, and ignoring the *ad populum* arguments that flap hysterically about most Labor-Management problems, there are four cogent arguments advanced by these groups: (1) right-to-work laws are in harmony with the intentions of the framers of the Taft-Hartley Act; (2) right-to-work laws protect the individual's constitutional rights so that no worker is "coerced" into joining or remaining in a union against his desires: (3) the laws prevent invidious "union monopoly"; and (4) states enforcing such laws thrive economically without harming unions. Let us analyze these four points.

On the point that the state laws are in harmony with the intentions of the framers of the Taft-Hartley Act, the pressure groups can speak with some authority. Fred A. Hartley, who gave his name to the Act, is a director of the National Right-to-Work Committee. Furthermore, according to Representative Arthur G. Klein, a member of Hartley's committee while he was in the House, the Hartley bill "was actually written with the help of several industry representatives and some lawyers from the National Association of Manufacturers and the United States Chamber of Commerce." It is common knowledge that this is an understatement.[4]

Most of the organizations advocating right-to-work laws have been so anti-union and so unconcerned with the plight of the workingman that their concern with the individual rights of a laborer is curious when looking at their past records—they have fought most pieces of legislation designed to aid the individual workers. Today they fight public housing, taxes based on the ability to pay, the extension of the Social Security and minimum wage laws and medical care programs. If these groups were concerned with the right of individuals to work, why haven't they fought for a federal Fair Employment Practice Act where employment opportunities for members of minority cultures are really restricted? In fact, Walter White, then Secretary for the National Association for the Advancement of Colored People, made the following charge:

> In sharp contrast to the delay of FEPC, this committee has been giving a considerable amount of attention to proposed amendments and revisions of the Taft-Hartley Act. The conclusion is inescapable that Taft-Hartley received attention and action not because it is any less a so-called controversial piece of legislation than FEPC, but rather because powerful interests in the country are able to force action on this legislation by sheer strength. *Apparently, these same forces are operating against FEPC legislation.*[5]

Oddly enough, although the fight is carried on in the name of individualism, these institutions exist because they know from experience that an individual is powerless and a well-disciplined and

well-financed organization is necessary to gain "desirable" objectives.

The NAM has long been known to oppose unions and consistency of purpose is its one professed virtue that has never been questioned. Indeed, its right-to-work banner is somewhat threadbare after more than sixty years of hard use. It is perhaps unfortunate that more employers are not aware of the fact that a consistently regressive attitude toward employee needs and a disregard for employee attitudes is more harmful than beneficial from a public relations as well as an employer-employee relations viewpoint.

Something of this anti-union paternalism is evident in the Taft-Hartley Act. Hartley, in his book *Our New National Labor Policy*, says that Section 14(b) was a compromise concession to pro-labor senators! He advocates abolishing even milder forms of labor security than the union shop because of a fear of "union monopolies." That he was earning $20,000 a year at the time he published the book as president of and lobbyist for the Tool Owners Union—an employer's organization declared by the New York Secretary of State to be "fascist"—might have influenced his opinion.

But if there is some harmony of intention, there are some discords in the Act as it now stands. Section 10(a)[6] permits the National Labor Relations Board to cede jurisdiction to state boards only if the state law is consistent with federal law, whereas Section 14(b) cedes jurisdiction only if state laws regulating union security are more severe. It would seem that the policy enunciated in Section 14(b) creates conflict for a firm in interstate commerce. As right-to-work laws vary in each state and the majority of states do not have such legislation, questions involving union security become increasingly complicated. It would certainly be of greater public service to have interstate commerce regulated by one clear, consistent national policy under the Taft-Hartley Act. Of course, a national right-to-work law controlling interstate commerce would make for greater consistency.

Another legal oddity is the Railway Labor Act which was amended in 1951 to permit union shop contracts in the railroad and airline carrier industries. Because the federal government did not relinquish jurisdiction to states, the right-to-work laws cannot be applied to railroad and airline employees. Prior to 1951, the Railway Labor Act had forbidden union shops, with the blessing of labor, because of *employers* who managed to dominate or control many employee unions. Inevitably the 1951 amendment permitting the union shop was contested in a number of right-to-work states including Nebraska. The Nebraska Supreme Court held that the amendment to the Railway Labor Act was "in violation of the First and Fifth Amendments of the Constitution and the Nebraska State Constitution." The U.S. Supreme Court reversed the Nebraska decision, deciding that the provisions in the Act for the union shop agreement are valid even though forbidden by state law because Congress has the right to control interstate commerce.[7] If Congress determines that the union shop is a stabilizing force and beneficial to society, the court said it saw no reason to hold the 1951 amendment unconstitutional. It added that even though the union shop might hurt some individuals, it was, in the long run, constructive. This decision helps to cast considerable doubt on the wisdom of Section 14(b) of the Taft-Hartley Act and all the right-to-work laws. If the union shop is good for employees in the transportation industry, why not for the whole nation?

A good case can be made against the closed and preferential union shop outlawed by the Taft-Hartley Act, but many responsible labor experts see nothing undemocratic in the union shop. In all walks of life, majority rule is considered to be the only feasible method of solving problems where differences of opinion arise. Why shouldn't the same democratic principle apply to the union shop? Before a union is entitled to represent employees under the Taft-Hartley Act, it must be elected by majority vote in a secret and supervised election conducted by the NLRB. When an elected union bargaining for employees requests a union shop, it theoretically expresses the sentiment of the majority of union members. Furthermore, the individual union member is protected by the Act as he is required only to pay an initiation fee and union dues—no other union demand can be made upon him. Of course, there are many unions which are not democratically regulated from within but, under such circumstances, legislation protecting democratic conditions is necessary rather than the suppression of the union shop. The 1959 legislation, to some extent, was a step in that direction.

When an election for public office is conducted, those casting their ballots for the losing candidate do not end their social responsibilities. They continue to pay taxes, are obliged to render military service and cannot commit crimes. The union shop permitted by the Taft-Hartley Act can be supported by the same reasoning. If a union representing the majority secures a union shop agreement with an employer, there appears to be nothing undemocratic since the union is acting to protect the interests of most persons functioning in an employer-employee relationship. In addition, since most employees, union members or otherwise, are benefited by the bargaining conducted by the union with an employer, it seems fair that all third-party beneficiaries should bear the costs.

With the exception of Nevada, an anomaly, the "right-to-work states" show per capita incomes in 1958 well below the national average of $2,057. The per capita incomes range from $1,876 in Florida to $1,218 in South Carolina and $1,053 in Mississippi. Large sections of the South and Southwest are desperately in need of industry to raise their standards of living. Presumably, by publicizing anti-union attitudes, these areas hope to attract new firms. Whether such a policy is nationally sound is questionable as the same old problem, the right of labor to organize, is raised. Furthermore, if an unorgan-

ized company located in the South or Southwest gains an advantage over competition elsewhere because of low wages, its organized competitors will exert greater effort to break unions.

Ironically, the preamble to the Taft-Hartley Act specifically states that unions are socially desirable.

To encourage the passage of right-to-work laws, a U.S. Chamber of Commerce research report claims that industry migrated to the southern states that had them. The report tells "the inside story" of a $3,500,000 oil field equipment manufacturing plant to be located at Ardmore, Oklahoma. When the Oklahoma legislature failed to pass a right-to-work bill, the firm changed the site to Gainesville, Texas. The report also quotes an unnamed contracting firm which claimed that because of a right-to-work law, Texas attracted more migrant industry "fleeing from union despotism in the Eastern States" than Louisiana. The following year Louisiana passed a right-to-work law—presumably to avoid missing its fair share of the refugees or runaway shops. It has since been repealed. Obviously states in which laboring conditions are notoriously poor vie with one another for industry by passing restrictive labor legislation.

The same report quotes a Tennessee contractor who commends right-to-work legislation because "it has helped us in our labor relations policies . . . always in the back of the negotiators' minds they have the thought that should their (union) demands become unreasonable, contractors could always again revert to non-union workmen." In short, his employees could always be fired for belonging to a union. This, of course, is illegal, but the report quickly cites a Texas printer who commends the laws because "the unions realize that if a court decision was needed, they (the court) would not be on their (the union's) side." It is not hard to realize why pressure groups advocating right-to-work laws have worked so tirelessly.

In the South and Southwest, many unions are fairly docile. In the North, the demonstration in Indianapolis and the fight several years ago at the Ohio Consolidated Telephone Company over a union shop clause in a collective bargaining contract give a bitter indication of future union action when confronted by right-to-work laws. Admittedly, a law should not be defeated merely because organized labor doesn't like it. The question to be answered is whether right-to-work legislation benefits most of our society.

The regrettable conflicts between labor and management reflect more than the actions of pressure groups attempting to influence state and national legislation. They reflect a basic indecision in American opinion, as reflected in Section 14(b), about unions. It is as if we, as a nation, have not really accepted the fact that unions are here to stay and are necessary to protect workingmen who "sit" in an inferior bargaining status. If public acceptance of unions were clear, as in some European countries, the question of a union shop and right-to-work laws would be unimportant.

The right-to-work laws are negative and threaten organized labor. For that reason unions hate them, call them "wreck" laws, and compare them to the yellow-dog contract in which an employee on being hired had to sign an agreement that he was not a union member and that he would not join a union.[8] Right-to-work laws are more sophisticated than that. They are the jaundiced dogs. But they bite at the same old sores. Racketeering within unions will not end with the promulgation of right-to-work laws. Furthermore, employers should realize that the development of a healthy working climate is retarded by advocating such legislation.

Alabama, Arkansas, Georgia, Iowa, Mississippi, Nevada, North Carolina, South Carolina, Tennessee, Texas, Utah, and Virginia expressly outlaw all forms of union security, including the agency shop. The other states enacting right-to-work legislation, Arizona, Florida, Indiana, Kansas, Nebraska, North Dakota, and South Dakota, did not specifically ban the agency shop. In the states which did not outlaw the agency shop judicial intervention becomes necessary to determine whether this form of union security is legally permissible.

The agency shop, permissible under the Taft-Hartley Act, is a situation in which an employee is required to pay dues without belonging to the union holding the right of representation. Some experts consider the agency shop as being essentially fair and democratic because the employees benefit from union pressures and the cost of maintaining a strong labor organization should be borne by all of the beneficiaries. The union shop differs from the agency shop in that in the latter form of union security the contributing employee need not become a union member. As a practical matter, since most members are not active in union affairs, there is little difference between formally belonging to a union and not belonging to a labor organization while still paying dues.

Indiana[9] has ruled that the agency shop is legal and a Florida[10] court recently approved of this viewpoint. In addition the attorney generals in Nebraska and North Dakota have ruled that an agency shop is permissible.[11] On the other hand a court in Arizona declared that the agency shop is prohibited.[12] The Attorney General in Nevada has taken a similar position and has declared that the agency shop is illegal.[13]

In the states where the agency shop is permitted the impact of right-to-work legislation is negligible and it can be argued that under such conditions right-to-work legislation is democratic. But where the agency shop is banned, the jaundiced dogs are still with us.

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[1] A yellow-dog contract is a situation where as a condition of employment the employee stipulates that he is not a union member and, furthermore, that he will not join a union in the future.

[2] 29. *U.S. Code*, sec. 164 (3).

[3] P. L. 101, 80th Cong., 1st Sess. (1947). "Nothing in this Act shall be construed as authorizing the execution or application of agreements requiring membership in a labor organization as a condition of employment in any State or

Territory in which such execution or application is prohibited by State or Territorial law."

[4] Schriftgiesser, *The Lobbyist* 95–97 (1951).

[5] Hearings before the Subcommittee on Civil Rights of the Committee On Labor and Public Welfare, U.S. Senate, 83rd Congress, 2nd Session on S. 692, p. 177 (1954).

[6] ". . . That the Board is empowered by agreement with any state agency . . . to cede to such agency jurisdiction over any cases in any industry (other than mining, manufacturing, communications, and transportation except where predominantly local in character) even though such cases may involve labor disputes affecting commerce, unless the provision of the State or Territorial statute applicable to the determination of such cases by such agency is inconsistent with the corresponding provision of this Act or has received a construction inconsistent therewith."

[7] Railway Employee's Dept. V. Hanson, 351 U.S. 225 (1956).

[8] The yellow-dog contract was made unenforceable in federal courts by the Norris-La Guardia Act passed in 1932.

[9] Meade Electric Co. v. Hagberg, 44 L.R.R.M. 2312 (1959).

[10] Schernerhorn v. Local 1625, Retail Clerks Union, 47 L.R.R.M. 2300 (1960).

[11] L.R.R., January 9, 1961.

[12] Arizona Flame Restaurant, Inc. v. Bartenders Union, 34 L.R.R.M. 2707 (1954).

[13] L.R.R., January 9, 1961.

BUSINESS OUTLOOK FOR 1961

by John A. Cochran

Introduction

By early spring 1961 it appeared that the 1960–61 recession would turn out to be one of the shortest and mildest of the postwar period, insofar as the decline in national income was concerned. Much of the fall in national income and output appeared to be due to a general cutback in inventories in a number of different industries. Most of the desired inventory liquidation had been accomplished in the first quarter of 1961, so that the stage was set for an upturn in the spring quarter. The downturn in economic activity could be called "mild" even though the total level of unemployment reached record-high figures for the last twenty years. Part of the explanation for the high unemployment figures is that we had more unemployment in 1960, before the downturn, than we had had in earlier upswings in the postwar period. Furthermore, the last period of business upswing was slightly more than two years in duration, which was the shortest period of prosperity in the postwar period. The economy seemed to be developing economic growth problems at high levels of output and employment.

In December 1960 unemployment rose by 500,000 to reach some 4,500,000 which is the highest December total since 1940. Employment declined by 1,173,000 to the still high level of 66,009,000. Outside of seasonal declines in employment the most significant fall in jobs took place in factory employment which dropped by almost 300,000. Excessive inventories and a lag in incoming orders leading to cutbacks in production schedules were important causative factors. The Department of Labor reported that seasonally adjusted data revealed that 6.8 per cent of the labor force were unemployed in December, as compared with 6.3 per cent in November. If the December unemployment rate continues through early 1961, there will be 5,500,000 unemployed in January, 5,600,000 unemployed in February, 5,400,000 in March, and 4,900,000 in April. The spring decline jobless would be due to warmer weather which permits construction and other outdoor employment to rise. Finally it should be pointed out that unemployment in December 1960 was nearly one million higher than the year earlier.

It is ironical that this increase in unemployment should occur in the midst of so many other signs of great material prosperity in this country. Personal income rose throughout 1960 and consumer spending remained at high levels. The total output of goods and services reached historically high levels for the United States. In short, business was good, if not booming. Let us now look at the various important components of national spending, beginning with consumer spending.

Consumer Spending

Consumer spending on hard goods, soft goods, and services ordinarily accounts for some two-thirds of Gross National Product (GNP). In the third quarter of last year, which is the latest quarter for which we have detailed figures, consumption expenditures amounted to $328.3 billion out of a total GNP of $503.5 billion. Although consumer spending increased last year, it tended to lag behind the increase in personal income as consumers repaid old debts and accumulated more savings. Department store sales increased only 1 per cent for all of 1960 and declined in early 1961 from the year earlier levels (even though they rose 6 per cent in the four weeks ended December 31, 1960). While personal income increased nearly $4 billion from the second to the third quarter of last year, personal saving rose exactly $4 billion so that total consumer spending fell somewhat. Ordinarily we would expect spending to rise as income rises. The good part of last year's development therefore is that any increase in personal income *this year* may be accompanied by an even greater increase in spending because of the large amount of savings accumulated by consumers and their relatively favorable debt position. Sellers of certain durable goods, particularly, may be in a favorable position to take advantage of these market possibilities. Although automobiles may not move in as great a volume this year as last, household appliance sales may be expected to show some recovery, especially if Federal Reserve easy money policies succeeded in stimulating home building. Sales of soft goods and services, of course, should increase this year as they did last year. The Christmas season just concluded saw many retailers posting new sales records and resulted in marked inventory shortages of particular goods. Many retailers, therefore, view the new

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ear with considerable optimism, particularly the econd half of this year. Spring retail sales this ear, however, will be hampered by an early Easter, vhich comes on April 2, or 15 days earlier than in 960.

Industrial Production

The Federal Reserve Board of Industrial Produc- ion, based on 1957 as 100, showed that the high oint of such production was reached in July 1960 vhen the index stood at 110. Thereafter the index declined and by December had fallen to 103, which vas a decline for the fifth straight month. The greatest decline appeared to be in durable manufac- uring though nondurable manufacturing suffered as vell. For example, although men's suit produc- ion for the first 11 months of 1960 was 3 per cent head of the previous year, the latest month re- orted, November, had a slump of 17 per cent from he like 1959 month. Total business sales in Novem- er were at a reduced level of $59.8 billion after aving reached a high level of $62.6 billion in April 960. November figures for new orders for durable oods received by manufacturers also declined to he amount of $13.8 billion, which was the lowest or any month since December 1958, except for the trike-depressed November 1959. One favorable ote here, however. Such new orders have been liding for almost a year and a half. In the 1956– 8 recession the decline lasted just a year and a alf, and in 1953–54 only one year. These past atterns tend to suggest that new orders may again egin to turn up in a period of several months. urthermore, it is worthy of observance that new rders in November were only $2.3 billion below he peak total of June, 1959. The decline from a imilar peak in the 1957–58 recession was about $6 illion while the decline within a year in 1953 was 3.7 billion. This relative firmness in new orders ppears to be confirmed by the maintenance of a igh level of Department store sales and the con- inued expansion, though small, of consumer in- tallment credit. Also to the extent that a recession eriod is a reflection of the preceding period of conomic expansion, we can take some comfort in he fact that this period of upswing has been no nger than two years, which is definitely shorter an earlier postwar expansions. Hence, there may e fewer needed corrective changes.

Capital Spending

Outlays for plant and equipment by business in 960 are estimated by the Department of Commerce nd the Securities and Exchange Commission at me $35,750,000,000, which is about 10 per cent igher than the previous year, but about 4 per cent elow that projected by business at the beginning f 1960. For 1961 an SEC-Department of Com- erce survey published in March, 1961, shows an ntention on the part of American business to spend 34.5 billion, which is only 3 per cent less than last ear. (This compares with an actual decline of some 7 per cent in such capital spending by business in the recession period of 1957–58.) Furthermore, for 1962 business plans to spend nearly as much as in 1961. This suggests that a high level of business confidence in the economy has been maintained. The upswing in the stock market in early 1961 also suggested high business confidence. Such stability in capital spending, of course, in itself, contributes to the overall stability of the economy. Even the disappointments of 1960 do not seem to have dampened the belief in the "golden Sixties." Incidentally, it should be pointed out here that in late 1957 businessmen expected to cut their capital outlays by only 7 per cent, but actually ended up with a 17 per cent cut. Even so this particular kind of evidence would suggest a milder downturn for 1960–61 than occurred in 1957–58.

Inventories continue to be a troublesome problem, particularly in many hard goods lines. Automobile inventories still appear to be at record levels and efforts are being made to work them down by layoffs and production schedule cutbacks (auto sales in early January 1961 were off 11.4% from the year earlier). Industrial inventories, overall, dropped from an accumulation rate of $11.4 billion the first quarter of 1960—after the long steel strike of 1959—to a net decline of $4 billion in the fourth quarter of 1960. It appears likely that such inventory liquidation will continue, and perhaps even accelerate, in the first quarter of 1961. Steel industry leaders, for example, are most cautious in their forecasts for 1961. The glowing outlooks of early 1960 doubtless play a part here as indicated in the following recent statement by Joseph Block, Chairman, Inland Steel Company: "The glowing predictions I made a year ago were certainly wide of the mark. If I were a member of a big league ball team, I would either be benched or sent back to the minors."

In 1960 steel output was slightly less than 100 million tons which made last year the steel industry's sixth best year. In the final week of 1960 production was 1,122,000 tons, which was only 39.4 per cent of capacity and the lowest for any non-strike week in twenty-two years. Even so, steel output last year was 7½ per cent higher than the strike-affected year of 1959. Steel output in 1961, many industry observers believe, may approximate that of 1960 with lower production in the first half of the year followed by higher production in the second half of the year as existing steel inventories become depleted.

Although total business inventories declined only $100 million in November, they were still $4.4 billion above the year earlier. This suggests, at a time when final consumer sales do not show a great deal of buoyancy that there is a further period of inventory adjustment ahead. The Prudential Economic Forecast suggests that there will be a decline of inventories in 1961 of about $2 billion. It is not expected that the decline for the year will be greater than this because present inventory-sales and inventory-new orders ratios do not appear to be particularly high by historical standards. Of course

the overall net change in inventories for the year could take place through a substantial liquidation early in the year followed by some accumulation later in the year. Furthermore, inventories may be particularly excessive in individual industries while they may even be in short supply in other industries.

Government Spending

In general, government spending should provide support to the economy. State and local government spending has increased in every year of the postwar period including recession years. For example, in the recession year of 1958 total state and local government spending was $40.8 billion, as compared with $36.8 billion in the previous year. In 1960 state and local spending rose in every quarter and was at an annual rate of $48.0 billion in the third quarter. With urgent education, welfare, and highway needs in every state there is no reason to believe that 1961 will not see a further rise in such government spending.

At the national level, too, we can expect that government spending will increase even though a deficit may be incurred. Despite the outgoing administration's official forecast of a balanced budget in the next fiscal year, the new Secretary of the Treasury, Douglas Dillon, has already indicated that information available to him suggests that there will be a deficit in Fiscal Year 1962 which begins July 1. The prospective deficit appears to be favorable to business confidence. The booming stock market appeared to be further aided by this announcement from Dillon. *The Wall Street Journal* reported as follows on January 12, 1961:

> As on Tuesday, there were some new developments yesterday that spurred rising stock prices. One was Treasury Secretary designate Dillon's forecast of a deficit in the Federal budget in the first year of Kennedy Administration.

A task force report to President Kennedy suggested a $3 to $5 billion increase in government expenditures to bring the recession to a halt. Both tax cuts in personal income taxes and increases in government expenditures were recommended by different presidential advisers. Some advisers were suggesting that an unemployment rate of 7.5 per cent of the labor force should trigger big increases in government spending (unemployment was at a rate of 6.8 per cent in mid-December 1960).

Table I
Consolidated Cash Budget for the Federal Government
(Billions of dollars)

	FY 1960	FY 1961	FY 1962
Cash spending	$94.3	$98.6	$103.5
Cash income	95.0	98.4	96.2
Cash surplus (x) or deficit (–)	x.7	–.2	–7.3

Source: *U. S. News and World Report*, January 9, 1961, page 91.

Turning to a consideration of recent and prospective cash spending and cash income of the government, we must add trust fund receipts and spending to the regular budget figures in order to get the data on cash spending and cash income. The data for this consolidated cash budget, which is the budget which really affects overall economic activity, is summarized in Table I. We note that the small cash surplus of $700,000,000 for fiscal year 1960 is expected to be followed by a small cash deficit of $200,000,000 for the current Fiscal Year of 1961. For fiscal year 1962, however, which begins on July 1, 1961, it is expected that a rise in government spending of nearly $5 billion dollars and a fall in government cash receipts of more than $2 billion dollars will produce an excess of cash payments to the public over cash receipts of some $7.3 billion. Hence, a powerful fiscal shot-in-the arm for the economy should be forthcoming after midyear, which should then provide a substantial stimulus for recovery. Whenever spending rises so too does income for individuals and sales for business firms, which in turn stimulates other spending.

Summary of Outlook

Assessing the strong and weak points of the economy at this point, we conclude that the outlook for 1961 seems to be favorable without being unduly bullish. This is said despite the rash of overly optimistic statements about 1960, which were forthcoming a year ago. It is true that we are in the midst of a mild recession which began in mid-1960. However, it is expected that the current downturn should end by spring, with a strong upthrust in the economy thereafter. Our projections of GNP (Gross National Product, or total output of goods and services in a given period of time) suggest that the low point of the current business decline should be reached in this first quarter of 1961 with some springback in the second quarter and a strong increase in total spending in the second half of this year. For all of 1961 we expect GNP will total approximately $512 billion, as compared with approximately $504 billion for 1960. This would represent an increase of 2 per cent over last year, of which some 1 per cent would be an increase in the production of real goods and services while 1 per cent would be a rate some 4 per cent ahead of the $505 goods and services. By the end of 1961 GNP should be running at approximately $525 billion, which would be a rate some 4 per cent ahead of the $505 billion at the end of 1960.

The pattern for this year should be a reversal of last year's pattern. Last year the expansion of the first half of the year was followed by a slowdown in the second half, while this year the declines early in the year should be followed by sharp advances later in the year. By quarters our estimates are: $502 billion for the first quarter, $506 billion for the second quarter, $514 billion for the third quarter, and $525 billion for the fourth quarter.